

1966



THE O/E/N PRODUCT LINE

...and RESEARCH & DEVELOPMENT PHILOSOPHY

	<u>1966</u>	<u>1965</u>	<u>Per Cent of Change</u>
Net Sales	\$67,312,021	\$54,624,884	+ 23%
Income Before Income Taxes	5,242,606	2,840,212	+ 85%
Provision for Income Taxes	2,548,000	1,347,500	+ 89%
Net Income	2,694,606	1,492,712	+ 81%
Net Income Per Share	\$2.58	\$1.45	+ 78%
Cash Dividends Paid	\$ 530,497	\$ 371,047	+ 43%
Shareholders' Investment	\$16,347,258	\$14,011,714	+ 17%
Book Value Per Common Share	\$15.63	\$13.63	+ 15%
Number of Shareholders	4,115	3,965	+ 4%
Number of Employees	8,028	6,450	+ 24%

MESSAGE



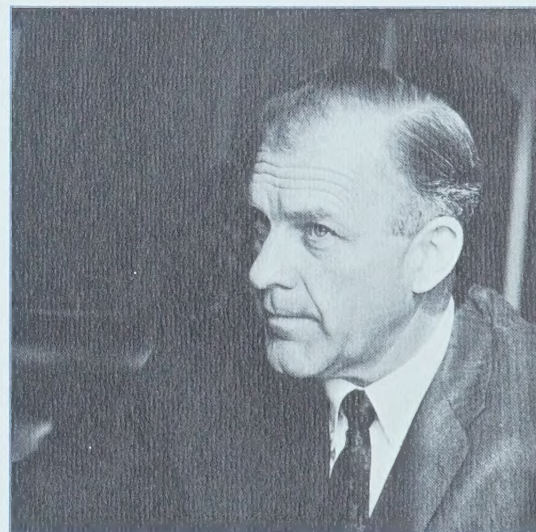
The past year was the most successful and eventful in the history of OAK ELECTRO/NETICS CORP. Major 1966 achievements were:

- Record sales and earnings of \$67.3 million and \$2.7 million, respectively.
- Strengthening of the O/E/N product line through acquisition and product development.
- Two dividend increases, the second in conjunction with a 50 per cent stock distribution.
- New research facilities in the U.S. and abroad.
- Increased operating and production efficiencies in most divisions.

O/E/N emerged from this period of profit and continuing transition as a strong, diversified corporation with the research and development orientation necessary for further penetration of its markets and continued leadership in electronic components.

Industry experts predict that the market for electronic components will increase approximately 50 per cent during the next nine years, from \$3.9 billion in 1966 to nearly \$6 billion in 1975. As a result, O/E/N should also enjoy continuing long-range growth in coming years.

A handwritten signature in dark ink, reading "E. A. Carter". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.



E. A. Carter
PRESIDENT AND CHAIRMAN



OAK ELECTRO/NETICS CORP and subsidiaries

GENERAL OFFICES

Crystal Lake, Illinois

ANNUAL MEETING

The Annual Meeting of the Corporation
will be held in Crystal Lake, Illinois,
at 10:00 A.M., May 5, 1967.

STOCK TRANSFER AGENTS

Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Illinois

United States Trust Company of New York
New York, New York

REGISTRARS

The First National Bank of Chicago
Chicago, Illinois

Manufacturers Hanover Trust Company
New York, New York

STOCK EXCHANGES

American Stock Exchange
Midwest Stock Exchange

CONSOLIDATED STATEMENTS OF INCOME FOR
THE YEARS ENDED DECEMBER 31, 1966 and 1965

	<u>1966</u>	<u>1965</u>
NET SALES	\$67,312,021	\$54,624,884
COST OF SALES	<u>51,881,723</u>	<u>43,303,796</u>
Gross income	\$15,430,298	\$11,321,088
SELLING, ENGINEERING AND		
ADMINISTRATIVE EXPENSES	<u>9,828,165</u>	<u>8,161,111</u>
Income from operations	<u>\$ 5,602,133</u>	<u>\$ 3,159,977</u>
OTHER INCOME (EXPENSE), net:		
Interest expense	\$ (619,430)	\$ (438,175)
Miscellaneous, net	<u>259,903</u>	<u>118,410</u>
	<u>\$ (359,527)</u>	<u>\$ (319,765)</u>
Income before income taxes	\$ 5,242,606	\$ 2,840,212
PROVISION FOR INCOME TAXES	<u>2,548,000</u>	<u>1,347,500</u>
Net income (Note 1)	<u>\$ 2,694,606</u>	<u>\$ 1,492,712</u>
Per outstanding share	<u>\$2.58</u>	<u>\$1.45</u>

The accompanying notes

CONSOLIDATED STATEMENTS OF SOURCE AND APPLICATION OF FUNDS FOR THE YEARS ENDED DECEMBER 31, 1966 and 1965 (Note 1)

	1966	1965
SOURCE:		
Net income.....	\$ 2,694,606	\$ 1,492,712
Depreciation and amortization.....	1,981,568	1,749,814
Proceeds from long-term debt.....	24,592	234,038
Increase (decrease) in deferred income taxes	52,320	(27,798)
Other items, net.....	28,038	343,169
	<u>\$ 4,781,124</u>	<u>\$ 3,791,935</u>

APPLICATION:

Net additions to plant and equipment (including acquisitions in 1966 and 1965 - Note 1).....	\$ 2,529,478	\$ 2,578,626
Cash dividends.....	530,497	371,047
Increase in working capital.....	1,721,149	842,262
	<u>\$ 4,781,124</u>	<u>\$ 3,791,935</u>

CONSOLIDATED STATEMENTS OF PAID-IN SURPLUS FOR THE YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
BALANCE, BEGINNING OF YEAR, AS RESTATED (Note 1).....	\$ 1,671,011	\$ 1,669,025
ADD (DEDUCT) (Note 3):		
Excess of option price over par value of previously unissued common stock or cost of treasury stock sold under option plans.....	36,207	1,986
Transfer to common stock account for stock distribution of one additional share for every two issued shares.....	(348,304)	—
Purchase of fractional shares not issued in connection with stock distribution.....	(23,336)	—
BALANCE, END OF YEAR.....	<u>\$ 1,335,578</u>	<u>\$ 1,671,011</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS FOR THE YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
BALANCE, BEGINNING OF YEAR, AS RESTATED (Note 1).....	\$11,827,770	\$10,706,105
ADD (DEDUCT):		
Net income for the year.....	2,694,606	1,492,712
Cash dividends paid (\$.51 per share in 1966 and \$.36 per share in 1965).....	(530,497)	(371,047)
BALANCE, END OF YEAR (Note 2).....	<u>\$13,991,879</u>	<u>\$11,827,770</u>



ASSETS

To the Stockholders and
the Board of Directors,

OAK ELECTRO/NETICS CORP

We have examined the consolidated balance sheets of OAK ELECTRO/NETICS CORP. (a Delaware corporation) and subsidiaries as of December 31, 1966 and 1965, and the related consolidated statements of income, retained earnings and paid-in surplus, and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of income, retained earnings and paid-in surplus, and funds present fairly the financial position of OAK ELECTRO/NETICS CORP. and subsidiaries as of December 31, 1966 and 1965, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the years.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 6, 1967.

CURRENT ASSETS:

	1966	1965
Cash	\$ 2,485,485	\$ 1,623,843
Receivables, less reserve of \$250,000 in 1966 and \$150,000 in 1965	10,394,862	6,663,241
Inventories, at the lower of first-in, first-out cost (last-in, first-out for one subsidiary) or market	17,082,727	10,000,460
Total current assets	<u>\$29,963,074</u>	<u>\$18,287,544</u>

PLANT AND EQUIPMENT, at cost:

Land	\$ 771,735	\$ 747,231
Buildings	7,513,488	7,317,511
Machinery and equipment	11,469,903	9,899,606
	<u>\$19,755,126</u>	<u>\$17,964,348</u>
Less-Accumulated depreciation	7,994,037	6,781,720
	<u>\$11,761,089</u>	<u>\$11,182,628</u>

OTHER ASSETS:

Prepaid insurance, interest, etc.	\$ 453,128	\$ 265,962
Patents at cost, less amortization	153,813	175,905
	<u>\$ 606,941</u>	<u>\$ 441,867</u>
	<u>\$42,331,104</u>	<u>\$29,912,039</u>

LIABILITIES

CURRENT LIABILITIES:	1966	1965
Notes payable to bank (Note 4)	\$ 8,140,000	\$ 2,040,000
Accounts payable and accrued expenses	8,390,793	5,167,179
Accrued income taxes	1,859,564	1,228,797
Total current liabilities	<u>\$18,390,357</u>	<u>\$ 8,435,976</u>
DEFERRED INCOME TAXES	<u>\$ 473,000</u>	<u>\$ 420,680</u>
LONG-TERM DEBT:		
5% note payable (Note 2)	\$ 6,500,000	\$ 6,500,000
Notes payable of subsidiaries, payable in variable annual amounts to 1986	282,171	257,579
	<u>\$ 6,782,171</u>	<u>\$ 6,757,579</u>
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	<u>\$ 338,318</u>	<u>\$ 286,090</u>
SHAREHOLDERS' INVESTMENT (Notes 1, 2 and 3):		
Common stock, \$1 par value, authorized 2,000,000 shares, 1,047,628 shares issued in 1966 and 697,144 in 1965	\$ 1,047,628	\$ 697,144
Paid-in surplus	1,335,578	1,671,011
Retained earnings	13,991,879	11,827,770
Less-Treasury stock, at cost (1,950 shares in 1966 and 11,320 shares in 1965)	(27,827)	(184,211)
	<u>\$16,347,258</u>	<u>\$14,011,714</u>
	<u>\$42,331,104</u>	<u>\$29,912,039</u>

Notes

(1) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The Company purchased certain assets and the business of an electronic relay manufacturing company on August 1, 1966, for approximately \$2,000,000 cash. In October, 1966, the Company acquired Hart Mfg. Corp., an Indiana corporation, by issuing 15,000 shares of its common stock (after one for two distribution). The latter acquisition has been accounted for as a pooling of interests and consequently the operations of Hart have been included in the accompanying consolidated financial statements for 1965 and 1966.

(2) 5% NOTE PAYABLE:

The note payable is due \$400,000 annually from 1969 through 1983 and \$500,000 in 1984. The loan agreement provides, among other things, that the Company will not pay cash dividends in excess of \$1,000,000 plus consolidated net income, as defined, accumulated since December 31, 1963. At December 31, 1966, \$5,127,000 of consolidated retained earnings was not subject to the above restriction.

(3) CAPITAL STOCK:

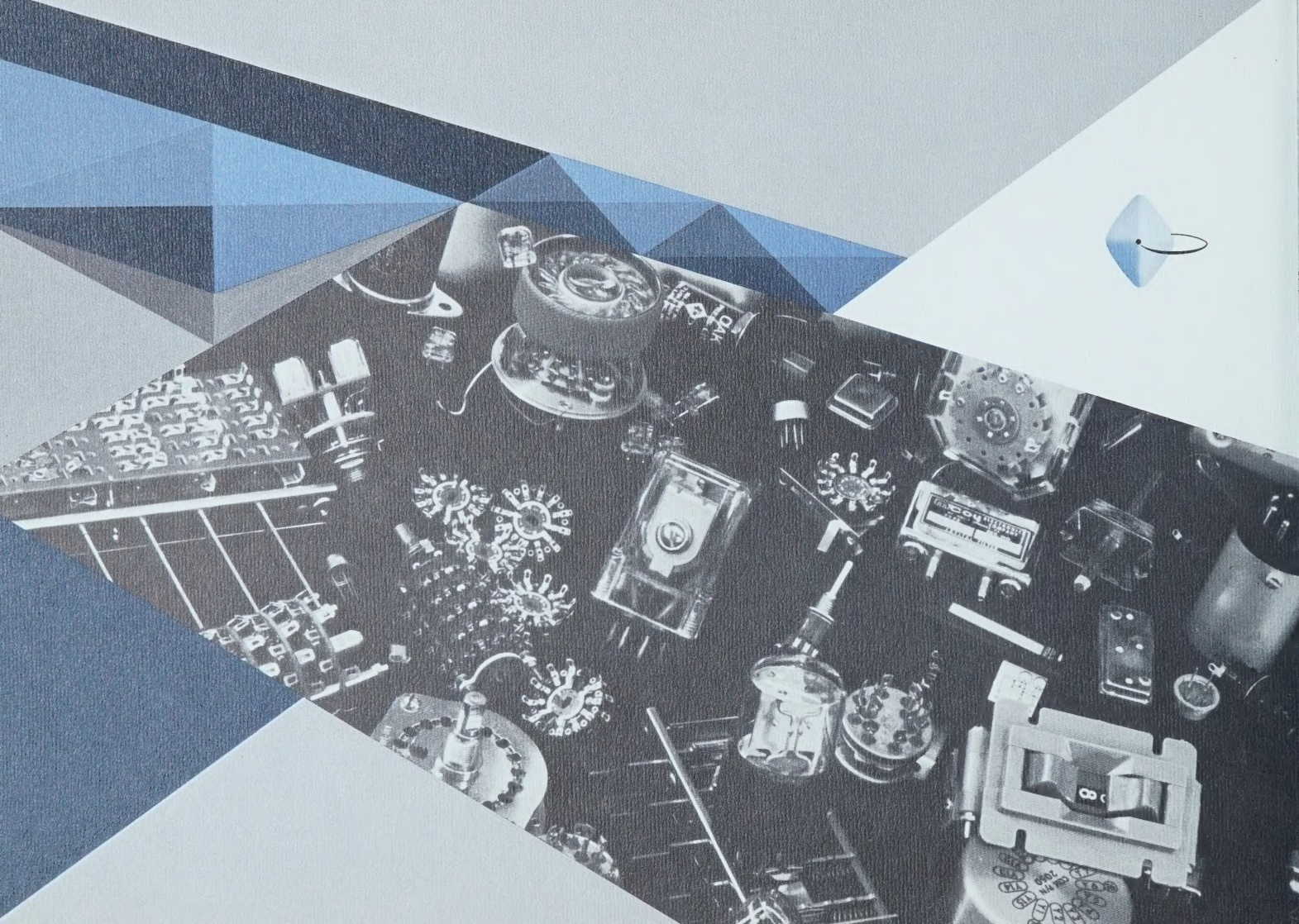
On August 12, 1966, the Company issued 348,304 shares of common stock in connection with a stock distribution of one additional share for every two issued shares. A cash payment of \$23,336 was made for fractional shares.

Under stock option plans, 70,219 shares of the Company's common stock are reserved for issuance to officers and key employees. During 1966, options to purchase 21,375 shares at \$18.42 per share were granted, and options to purchase 12,767 shares at \$11.27 per share and 5,092 shares at \$11.40 per share were exercised. At December 31, 1966, options for 69,094 shares were outstanding.

Authorized capital stock included 400,000 shares of no par preferred stock, none of which was issued at December 31, 1966.

(4) PROPOSED FINANCING:

The Company is presently negotiating for the sale of \$10,000,000 of subordinated convertible debentures. It is anticipated that the terms of the debentures will be finalized in March, 1967. The Company intends to use the proceeds for the payment of notes payable to bank of \$8,140,000 and the remainder for working capital.



O/E/N RESEARCH AND DEVELOPMENT

... its essence, purpose and direction

Technically-oriented customers fully appreciate and acknowledge O/E/N's leadership position in component research, engineering and development.

But even the most sophisticated shareholder or financial analyst has difficulty grasping the full significance of O/E/N research achievements.

And, understandably so.

While the elements of science – the flow from relatively pure or abstract scientific discovery to practical application – are evident throughout the O/E/N engineering organization, new components generally lack the drama, visual appeal and measurable market impact of end products. Hence, the nontechnician has difficulty mounting a meaningful appraisal of the results.

Perhaps the best measure of O/E/N's R & D leadership lies in a study of the industries and customers it serves.

O/E/N's research and development capability is evidenced by utilization of the company's products in all major new electronic developments of

the past two decades – television, data processing equipment, industrial controls, missiles and aerospace, sophisticated test equipment and all areas of communications.

As a matter of profit practicality, the majority of O/E/N's engineering effort is concentrated on, for semantic purposes, "product development", rather than "research".

It suggests to some observers a direction which seeks to perpetuate old concepts rather than explore the new. They contend that the accelerating pace of scientific achievement is such that today's major O/E/N products will eventually be obsoleted, just as semi-conductors replaced the vacuum tube – an end to which O/E/N should be dedicated as much for self-preservation as for future growth.

These same observers ignore, perhaps, the uniqueness of scientific endeavor – the linkage it forges from ideas to facts and from facts to ideas.

It is not paradoxical to suggest the interchange of ideas and facts in product development efforts can and do lead to the divergent paths of technical improvement as well as new conceptual horizons.

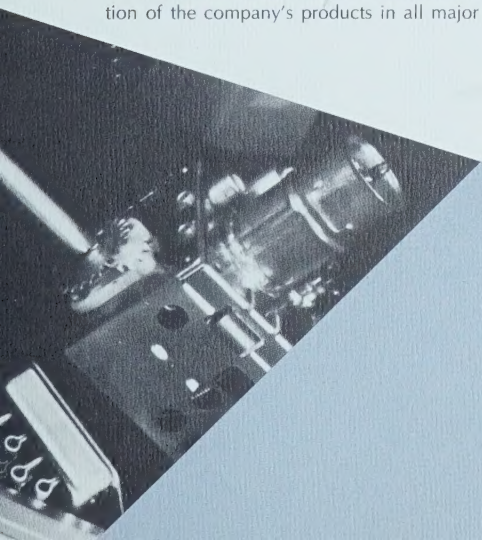
O/E/N research seeks both ends as one – to improve and refine existing products to the point of breakthrough; the evolutionary development of entirely new material and component concepts for the electronics industry.

The dual objective of product development efforts, however does not preclude the need for basic research activities.

Establishment of the Madison, Wisconsin Research Center recognizes the value and importance of the pure scientific approach to the components industry. Expansion of these activities will be proportional to the ability of O/E/N to meet future volume and profit targets which, in turn, are dependent on the shorter term product development efforts.

The challenge for any profit oriented company is to maintain proper balance between the two while meeting, at the same time, its obligation to shareholders.

At O/E/N, it's a welcome, interesting and continuing challenge.





MARCO-OAK INDUSTRIES *Anaheim, California*



OAK-HART MANUFACTURING (CANADA) LTD. *Aurora, Ontario, Canada*



M^cCOY ELECTRONICS COMPANY *Mt. Holly Springs, Pennsylvania*



HART MANUFACTURING CO. *Hartford, Connecticut*



PHILLIPS-ADVANCE CONTROL CORP. *San Juan, Puerto Rico*



DIAMOND H CONTROLS LTD. *Norwich, England; London, England*



NOBLE-OAK K.K. *Hachioji, Japan*



OAK ELECTRO/NETICS HOLLAND N.V. *Emmen, Holland*



DIAMOND H SWITCHES (S.A.) PTY., LTD. *Durban, South Africa*



OAK ELECTRO/NETICS CORP. (HONG KONG) LTD. *Kowloon, Hong Kong, B.C.C.*



OAK MANUFACTURING CO. *Crystal Lake, Illinois; Elkhorn, Wisconsin; Kenosha, Wisconsin*



HART-INDIANA *Mishawaka, Indiana*



OAK ELECTRO/NETICS CORP. (JAPAN) LTD., *Kawasaki, Japan*

PRODUCTS

ROTARY SWITCHES
 PUSHBUTTON SWITCHES
 ROTARY SOLENOIDS
 CHOPPERS
 VHF AND UHF TELEVISION TUNERS
 FM RADIO TUNERS
 HYDRAULIC THERMOSTATS
 BI-METAL THERMOSTATS
 TOGGLE SWITCHES
 PILOT LIGHTS
 CONVENIENCE OUTLETS
 LOAD PLUGS
 INFINITE CONTROLS
 ENERGY REGULATORS
 TIME DELAY UNITS
 POWER RELAYS
 TELEPHONE RELAYS
 GENERAL PURPOSE RELAYS
 MICRO-MINIATURE RELAYS
 INDICATOR LIGHTS
 ANNUNCIATOR LIGHTS
 LIGHTED PUSHBUTTON SWITCHES
 QUARTZ CRYSTALS
 CRYSTAL FILTERS
 OSCILLATORS
 FREQUENCY CONTROL ASSEMBLIES
 RECEIVER ANTENNAS
 IMPEDANCE TRANSFORMERS
 ANTENNA COUPLINGS
 TAPE RECORDER ASSEMBLIES

APPLICATIONS

Rotary and Pushbutton Switches for aircraft circuitry; aircraft electronic packages; automatic data processing equipment controls; circuit control; communications systems; control and annunciator panels; audio circuit control; control of digital computers; digital computers; instrumentation; intercoms; meter or signal switching; military equipment; radar test equipment; missile ground electronic equipment control; process development equipment; semi-automatic control equipment; space vehicle ground checkout systems; teaching machines; test equipment; weapon systems training equipment; audio amplifiers; attenuators; camera switching equipment; TV switching equipment; audiometers; biological telemetry; cardiac equipment; electrocardiograph and electroencephalograph equipment; medical oscilloscopes; home sound, paging and public address systems; binaural tape and disc recorders; oscillographs and oscilloscopes.

Rotary and Infinite Control switches for electric range surface elements; room heaters; washing machines; ro-tisseries; medical equipment; laboratory equipment; copy and blueprint machines; air conditioning; hot plates; dryers; ceramic kilns, infra-red units; battery chargers; film projection equipment; test equipment; beauty equip-ment; packaging machines.

Indicator lights and visual word warning arrays for in-plant test equipment; ground support equipment (launch, control, block house, guidance, test consoles); airport equipment (guidance, computers, aircraft panels); munici-pal departments of water and power panels; television broadcast equipment; petroleum chemical processing plants; airborne control towers; commerical computers; police and ambulance control centers and vehicles. Rotary Solenoids for remote actuation systems for missiles; machine tools; satellites; scoreboards; computers.

Choppers for highly reliable, low level switching and sampling in computers; multiplexing instruments; inte-grated applications.

Snap-in devices for all appliances; air conditioners; fans; laboratory equipment; office equipment; vending machines; copy machines; training aids; beauty equipment; dental equipment; industrial timers.

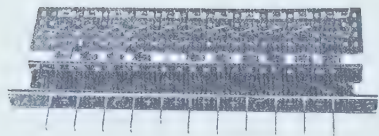
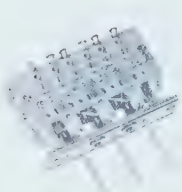
Hydraulic and Bi-metal thermostats for electric range ovens; coffee makers; panel board heating; industrial controls; commercial cooking; laboratory equipment; oven temperature protection; heavy fuel oil systems; injection molding machines; packing machines; space heaters; roasters; glue pots; livestock watering tanks; egg washers; clothes dryers; deep fat fryers; electric fry pans; irons; kettles; rotisseries; fan heaters; steam tables; sterilizers; culture ovens; brooders; alarm systems.

Relays for telephone systems; missile systems; aircraft systems; computers; fire control; radar; flight control; oil survey equipment; oceanography; ultra-sonic units; infra-red sensing systems; optical electronic equipment; communications equipment; electronic circuits; appliances; heater circuits; motor starting; clock control; auto-mation; X-ray equipment; photo-copying machines; commercial washers; conveyors; elevators; missile ground control; brewing equipment; dental equipment; vending machines; amusement machines; high speed polar-ized relays for telegraphic communications.

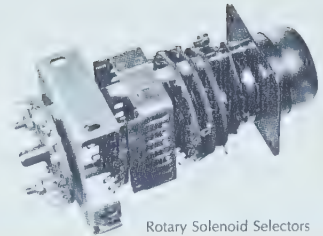
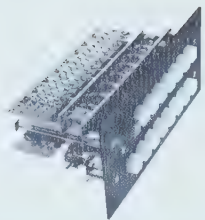
Quartz Crystals and Crystal Filters; Oscillators; Frequency Control Devices and Measurement Systems for military aircraft and ground station communication equipment; commercial aircraft and ground station communication equipment; commercial police, fire, taxicab, two-way communication equipment; citizens band two-way radios; frequency standards; airborne and ground station distance measuring equipment; automatic guidance and tracking and reporting systems for missiles and satellites; military and commercial marine transceivers; military and commercial telephone equipment; clock pulse sources for computers and timing systems; stable sources for tone generation and command signaling; automatic checkout equipment; speed control systems.

UHF and VHF tuners for television sets; Tuners for FM radios.

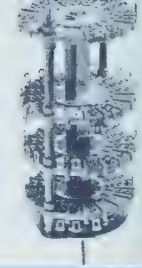
Radio and VHF and UHF television receiving antennas; boosters; impedance transformers, couplings, and related equipment for home television sets.



Pushbutton Switch Assemblies



Rotary Solenoid Selectors



O/E/N AND ITS PRODUCTS

Innovation—the keynote at O/E/N in 1966—extended beyond the introduction of new products, materials and processes to provide the electronics industry with better components at lower cost.

It went so far as to anticipate the nature of componentry for electronic equipment yet to be designed.

In October, O/E/N established its first basic research facility in Madison near the University of Wisconsin. The installation is an outgrowth of O/E/N's participation since 1965 in Wisconsin's University-Industry Research Program, under which University professors and graduate students conduct basic research studies in behalf of the company.

Initial research projects relate to theories for all-channel TV tuners and adaptation of new computer techniques to component design and quality assurance procedures.

Through the establishment of the Madison research center O/E/N became the first of more than 200 companies participating in the three-year-old UIR program to make full use of the University's personnel and facilities for aiding industry.

The Madison center permits O/E/N engineers and researchers to work closely with School of Engineering professors and graduate students in the investigation of electronic materials and techniques entirely apart from those presently used in the company's products.

During the year, O/E/N also expanded its overseas development research activities by establishing an advanced engineering section in Hong Kong to coincide with a similar activity in Holland. Both are initially engaged in TV tuner research for the Asian and European markets, respectively.

Indicator Lights and Lighted Switches



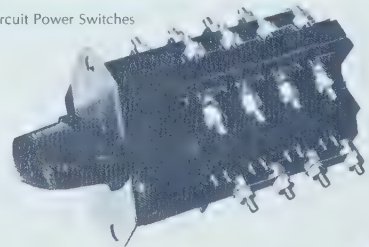
Infinite Control Switches



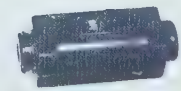
Thermal Switches



Multi-Circuit Power Switches



Power Switches





NEW PRODUCTS FOR NEW MARKETS

As O/E/N continues its program of diversification, new products are being added to meet new electronic market demands.

At the Oak Division, a new pushbutton switch panel has been introduced to the data processing equipment industry. Work is also progressing on a new "basic design" tuner which will help TV set manufacturers meet the increasing demand for lower set prices. And smaller, more reliable rotary switches, a continuing product program at O/E/N, keep customers in the forefront of the trend toward miniaturization.

McCoy Electronics continued to lead all crystal manufacturers in military Qualified Product Listing (QPL) applications and qualifications and has consistently been the first company in the industry to qualify for the most difficult listings in both metal and glass encapsulated crystals.

During the year, McCoy also continued its leadership in meeting closer tolerances and providing high quality crystals to an industry demanding more and more frequencies in the radio spectrum. Generally, performance characteristics of McCoy crystals and filters are 20 to 25 times greater than they were just six years ago.

Engineering staffs at McCoy, Marco-Oak and the Oak Division are working to integrate their product lines into packaged component assemblies. A data processing pushbutton panel, incorporating Marco-Oak and Oak products, and a new crystal switching module utilizing Oak switches and McCoy crystals, are typical examples of product combinations.

Total research, engineering and development costs for new and improved products and the modification of basic product designs to meet customer requirements amounted to \$2,018,149 in 1966, a 6 per cent increase over the \$1,901,510 spent in 1965.



DOUGLAS UNITED NUCLEAR / DOYLE ELECTRO PRODUCTS CO. / DUBROW ELECTRONIC INDUSTRIES
 DUBOSE MARINE RADIO / DUFFY ELECTRONICS & MFG. CO. / DUKANE CORP. / DULUTH AVIONICS / ALLEN DUMONT LABS INC.
 E. DUPONT DE NEMOUIL. & CO. / DYNA COMPANY, / DYNA EMPIRE INC. / DYNAIR ELECTRONICS INC. / DYNALECTRON CORP.
 ELECTRIC INC. / DYNALEC CORP. / DYNAMIC CO. / DYNACORP. / DYNA MOD ELECTRONICS / DYNAPAR INC. / DYNASCAN CORP.
 ELM / DYNATR

Space Communications

Northrop F-5 Tactical Fighter

Relays for the Military

ILLIETTE ELECTRONIC PRO

GRANGER ASSOCIATES / GRASS VALLEY GROUP / THE GRAY MFG. CO. / GRAYBAR ELECTRIC / GRISWOLD CONTROLS / THE GROVER CO. / GULFSTREAM ELECTRIC / GULFSTREAMS COMPANY / GULFSTREAM INDUSTRIES INC. / ALVIN GULF

1966



THE O E N FINANCIAL REPORT

...and TEN YEAR STATISTICAL SUMMARY



	<u>1966</u>	<u>1965</u>	<u>Per Cent of Change</u>
Net Sales	\$67,312,021	\$54,624,884	+ 23%
Income Before Income Taxes	5,242,606	2,840,212	+ 85%
Provision for Income Taxes	2,548,000	1,347,500	+ 89%
Net Income	2,694,606	1,492,712	+ 81%
Net Income Per Share	\$2.58	\$1.45	+ 78%
Cash Dividends Paid	\$ 530,497	\$ 371,047	+ 43%
Shareholders' Investment	\$16,347,258	\$14,011,714	+ 17%
Book Value Per Common Share	\$15.63	\$13.63	+ 15%
Number of Shareholders	4,115	3,965	+ 4%
Number of Employees	8,028	6,450	+ 24%

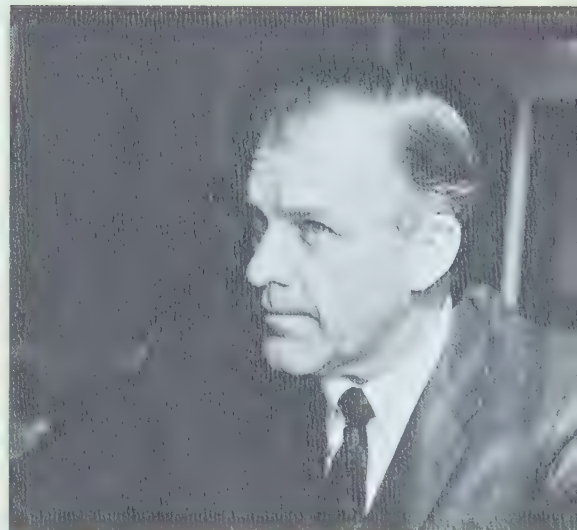
MESSAGE

The past year was the most successful and eventful in the history of OAK ELECTRO/NETICS CORP. Major 1966 achievements were:

- Record sales and earnings of \$67.3 million and \$2.7 million, respectively.
- Strengthening of the O/E/N product line through acquisition and product development.
- Two dividend increases, the second in conjunction with a 50 per cent stock distribution.
- New research facilities in the U.S. and abroad.
- Increased operating and production efficiencies in most divisions.

O/E/N emerged from this period of profit and continuing transition as a strong, diversified corporation with the research and development orientation necessary for further penetration of its markets and continued leadership in electronic components.

Industry experts predict that the market for electronic components will increase approximately 50 per cent during the next nine years, from \$3.9 billion in 1966 to nearly \$6 billion in 1975. As a result, O/E/N should also enjoy continuing long-range growth in coming years.



E. A. Carter
PRESIDENT AND CHAIRMAN

CONSOLIDATED STATEMENTS OF INCOME FOR
THE YEARS ENDED DECEMBER 31, 1966 and 1965

	<u>1966</u>	<u>1965</u>
NET SALES	\$67,312,021	\$54,624,884
COST OF SALES	<u>51,881,723</u>	<u>43,303,796</u>
Gross income	\$15,430,298	\$11,321,088
SELLING, ENGINEERING AND		
ADMINISTRATIVE EXPENSES	<u>9,828,165</u>	<u>8,161,111</u>
Income from operations	<u>\$ 5,602,133</u>	<u>\$ 3,159,977</u>
OTHER INCOME (EXPENSE), net:		
Interest expense	\$ (619,430)	\$ (438,175)
Miscellaneous, net	<u>259,903</u>	<u>118,410</u>
	<u>\$ (359,527)</u>	<u>\$ (319,765)</u>
Income before income taxes	\$ 5,242,606	\$ 2,840,212
PROVISION FOR INCOME TAXES	<u>2,548,000</u>	<u>1,347,500</u>
Net income (Note 1)	<u>\$ 2,694,606</u>	<u>\$ 1,492,712</u>
Per outstanding share	<u>\$2.58</u>	<u>\$1.45</u>

Crystal Lake, Illinois

The Annual Meeting of the Corporation
will be held in Crystal Lake, Illinois,
at 10:00 A.M., May 5, 1967.

Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Illinois

United States Trust Company of New York
New York, New York

The First National Bank of Chicago
Chicago, Illinois

Manufacturers Hanover Trust Company
New York, New York

American Stock Exchange
Midwest Stock Exchange

CONSOLIDATED STATEMENTS OF SOURCE AND
APPLICATION OF FUNDS FOR THE YEARS ENDED
DECEMBER 31, 1966 and 1965 (Note 1)

	1966	1965
SOURCE:		
Net income	\$ 2,694,606	\$ 1,492,712
Depreciation and amortization	1,981,568	1,749,814
Proceeds from long-term debt	24,592	234,038
Increase (decrease) in deferred income taxes	52,320	(27,798)
Other items, net	<u>28,038</u>	<u>343,169</u>
	<u>\$ 4,781,124</u>	<u>\$ 3,791,935</u>

APPLICATION:

Net additions to plant and equipment (including acquisitions in 1966 and 1965 - Note 1)	\$ 2,529,478	\$ 2,578,626
Cash dividends	530,497	371,047
Increase in working capital	<u>1,721,149</u>	<u>842,262</u>
	<u>\$ 4,781,124</u>	<u>\$ 3,791,935</u>

CONSOLIDATED STATEMENTS OF PAID-IN SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
BALANCE, BEGINNING OF YEAR, AS RESTATED (Note 1)	\$ 1,671,011	\$ 1,669,025
ADD (DEDUCT) (Note 3):		
Excess of option price over par value of previously unissued common stock or cost of treasury stock sold under option plans	36,207	1,986
Transfer to common stock account for stock distribution of one additional share for every two issued shares	(348,304)	—
Purchase of fractional shares not issued in connection with stock distribution	(23,336)	—
BALANCE, END OF YEAR	<u>\$ 1,335,578</u>	<u>\$ 1,671,011</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
BALANCE, BEGINNING OF YEAR, AS RESTATED (Note 1)	\$11,827,770	\$10,706,105
ADD (DEDUCT):		
Net income for the year	2,694,606	1,492,712
Cash dividends paid (\$.51 per share in 1966 and \$.36 per share in 1965)	<u>(530,497)</u>	<u>(371,047)</u>
BALANCE, END OF YEAR (Note 2)	<u>\$13,991,879</u>	<u>\$11,827,770</u>

ASSETS

To the Stockholders and
the Board of Directors,

OAK ELECTRO/NETICS CORP

We have examined the consolidated balance sheets of OAK ELECTRO/NETICS CORP. (a Delaware corporation) and subsidiaries as of December 31, 1966 and 1965, and the related consolidated statements of income, retained earnings and paid-in surplus, and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of income, retained earnings and paid-in surplus, and funds present fairly the financial position of OAK ELECTRO/NETICS CORP. and subsidiaries as of December 31, 1966 and 1965, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the years.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 6, 1967.

CURRENT ASSETS:

	1966	1965
Cash	\$ 2,485,485	\$ 1,623,843
Receivables, less reserve of \$250,000 in 1966 and \$150,000 in 1965	10,394,862	6,663,241
Inventories, at the lower of first-in, first-out cost (last-in, first-out for one subsidiary) or market	17,082,727	10,000,460
Total current assets	<u>\$29,963,074</u>	<u>\$18,287,544</u>

PLANT AND EQUIPMENT, at cost:

Land	\$ 771,735	\$ 747,231
Buildings	7,513,488	7,317,511
Machinery and equipment	11,469,903	9,899,606
	<u>\$19,755,126</u>	<u>\$17,964,348</u>
Less-Accumulated depreciation	7,994,037	6,781,720
	<u>\$11,761,089</u>	<u>\$11,182,628</u>

OTHER ASSETS:

Prepaid insurance, interest, etc.	\$ 453,128	\$ 265,962
Patents at cost, less amortization	153,813	175,905
	<u>\$ 606,941</u>	<u>\$ 441,867</u>
	<u>\$42,331,104</u>	<u>\$29,912,039</u>

BALANCE SHEETS

December 31, 1966 and 1965

LIABILITIES

CURRENT LIABILITIES:	1966	1965
Notes payable to bank (Note 4)	\$ 8,140,000	\$ 2,040,000
Accounts payable and accrued expenses	8,390,793	5,167,179
Accrued income taxes	1,859,564	1,228,797
Total current liabilities	\$18,390,357	\$ 8,435,976
DEFERRED INCOME TAXES	\$ 473,000	\$ 420,680
LONG-TERM DEBT:		
5% note payable (Note 2)	\$ 6,500,000	\$ 6,500,000
Notes payable of subsidiaries, payable in variable annual amounts to 1986	282,171	257,579
	\$ 6,782,171	\$ 6,757,579
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	\$ 338,318	\$ 286,090
SHAREHOLDERS' INVESTMENT (Notes 1, 2 and 3):		
Common stock, \$1 par value, authorized 2,000,000 shares, 1,047,628 shares issued in 1966 and 697,144 in 1965	\$ 1,047,628	\$ 697,144
Paid-in surplus	1,335,578	1,671,011
Retained earnings	13,991,879	11,827,770
Less-Treasury stock, at cost (1,950 shares in 1966 and 11,320 shares in 1965)	(27,827)	(184,211)
	\$16,347,258	\$14,011,714
	\$42,331,104	\$29,912,039

Notes

(1) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The Company purchased certain assets and the business of an electronic relay manufacturing company on August 1, 1966, for approximately \$2,000,000 cash. In October, 1966, the Company acquired Hart Mfg. Corp., an Indiana corporation, by issuing 15,000 shares of its common stock (after one for two distribution). The latter acquisition has been accounted for as a pooling of interests and consequently the operations of Hart have been included in the accompanying consolidated financial statements for 1965 and 1966.

(2) 5% NOTE PAYABLE:

The note payable is due \$400,000 annually from 1969 through 1983 and \$500,000 in 1984. The loan agreement provides, among other things, that the Company will not pay cash dividends in excess of \$1,000,000 plus consolidated net income, as defined, accumulated since December 31, 1963. At December 31, 1966, \$5,127,000 of consolidated retained earnings was not subject to the above restriction.

(3) CAPITAL STOCK:

On August 12, 1966, the Company issued 348,304 shares of common stock in connection with a stock distribution of one additional share for every two issued shares. A cash payment of \$23,336 was made for fractional shares.

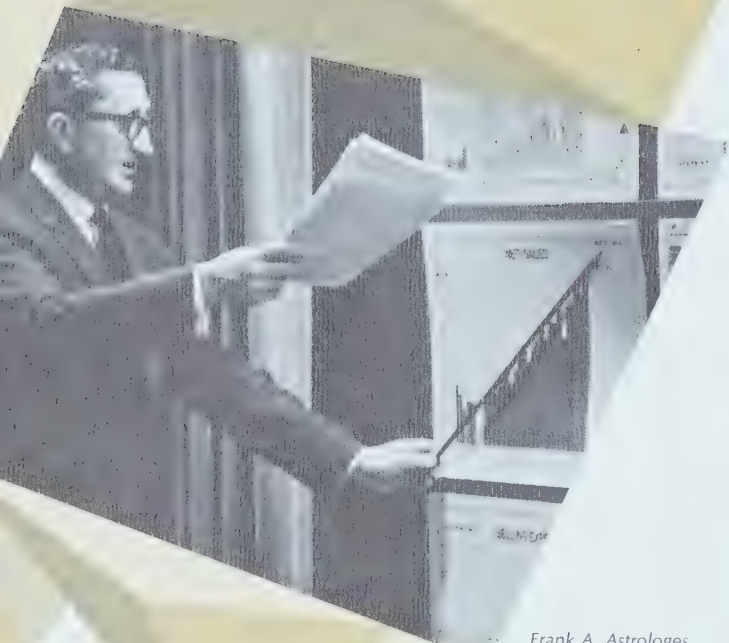
Under stock option plans, 70,219 shares of the Company's common stock are reserved for issuance to officers and key employees. During 1966, options to purchase 21,375 shares at \$18.42 per share were granted, and options to purchase 12,767 shares at \$11.27 per share and 5,092 shares at \$11.40 per share were exercised. At December 31, 1966, options for 69,094 shares were outstanding.

Authorized capital stock included 400,000 shares of no par preferred stock, none of which was issued at December 31, 1966.

(4) PROPOSED FINANCING:

The Company is presently negotiating for the sale of \$10,000,000 of subordinated convertible debentures. It is anticipated that the terms of the debentures will be finalized in March, 1967. The Company intends to use the proceeds for the payment of notes payable to bank of \$8,140,000 and the remainder for working capital.

1966 FINANCIAL REVIEW



Frank A. Astrologes
Vice President—Finance

O/E/N's financial performance in 1966 was the best in its history and represented significant progress toward achievement of the company's long-range goal to return 17 per cent on invested capital and 8 per cent net profit on sales.

Return on average invested capital in 1966 was 12.6 per cent, compared with 7.6 per cent in 1965.

Net profit margin in 1966 was 4 per cent, compared with 2.7 per cent a year earlier.

The entire 1966 net income resulted from operations, with no significant capital gains in either the past year or 1965.

At year end, backlog reached a record level of \$24,837,392, an increase of 66 per cent over 1965.

The company ended the year in an excellent financial position. Shareholders' investment increased more than 16 per cent to \$16,347,258, equivalent to \$15.63 per share, compared to \$14,011,714, or \$13.63 per share last year.

As a return on shareholders' equity, income in 1966 was equivalent to 19.2 per cent, compared to 11.6 per cent in 1965.

Retained income amounted to \$2,164,109, representing 80 per cent of total 1966 net earnings. The balance, \$530,497, was paid to shareholders as dividends and represented a 43 per cent increase over the \$371,047 in dividends paid in 1965.

Dividends paid to shareholders in 1966 were within O/E/N's policy to provide a reasonable and increasing cash return to shareholders, while allowing O/E/N adequate funds for reinvestment.

The current 16 cents quarterly dividend rate, reflecting an increase declared by the Board of Directors on January 26, 1967, brings the annual dividend rate close to the levels of the late 1950s.

Dividends, curtailed in 1961 to provide funds for O/E/N's rebuilding and reorganization programs, have been steadily increased since 1963.

During the year, capital expenditures amounted to \$2,136,559, 30 per cent higher than the \$1,641,806 spent in 1965. Capital expenditures in 1967 are expected to approximate \$3½ million.

Cash flow increased for the sixth consecutive year, rising in 1966 to \$4.47 per share, compared with \$3.15 in 1965. Cash flow is expected to show further increases in coming years through anticipated greater earnings and continuing increases in depreciation and amortization expense resulting from plant and equipment outlays to support planned expansion and growth.

Working capital at December 31, 1966, was \$11,572,717, an increase over 1965 of \$1,721,149 or 17 per cent.

The current ratio dropped to 1.6 for 1966, compared to 2.2 in 1965, reflecting heavy, but planned temporary short-term bank borrowings during the year to finance acquisitions as well as inventories, accounts receivable, and machinery and equipment to support expanded volume and to increase productive capacity.

Various means of financing were studied early in 1966 to provide additional permanent capital to replace the short-term obligations.

In the belief that dilution of shareholder equity would be offset in a relatively short period of time by increased earnings, a decision to sell common stock was made in mid-year at the height of the 1966 market surge.

Subsequent substantial declines in the stock market, however, precluded a proposed offering of 300,000 shares of common stock in September, 1966, as not being in the best long range interests of either the company or its shareholders.

Therefore, in late 1966, the company decided to sell \$10 million of Convertible Subordinated Debentures. The offering took place in late March, 1967, and proceeds from the sale were used to repay the bank loans, which amounted to \$8,640,000 at March 1, 1967, and to provide additional working capital.

In 1967, financial management will concentrate efforts in two primary areas: 1) Maximum and efficient utilization of newly installed computer facilities, particularly the IBM System 360 equipment, for inventory and production control at the Oak Division, O/E/N's major operation and 2) Implementation of a cost control program.

Under the cost control program, realistic percentages or targets of operating costs have been established for each O/E/N company. These targets relate to inventory turns, average inventory dollars, cost of sales elements, and individual items of selling, engineering and administrative expenses.

Also included in this program is an evaluation of low margin profit products to determine whether or not a line should be discontinued. Product costs will also be subjected to analysis for possible transfer to other O/E/N facilities to achieve lower overall costs.

O/E/N will continue to seek new and progressive methods of fiscal management while retaining, at the same time, its dedication to realistic accounting and financial practices.



Both approaches are recognized as being vital to the future success of O/E/N.

F.A. Astrologes

	1957	1958	1959	1960
OPERATIONAL RESULTS				
NET SALES	\$20,875,613	\$15,537,850	\$18,442,747	\$17,642,295
INCOME TAXES	1,140,000	555,000	1,060,000	760,000
NET INCOME	1,084,131	624,426	991,685	351,310
NET INCOME AS % OF SALES	5.19%	4.02%	5.38%	1.99%
NET INCOME PER SHARE	\$1.09	\$.63	\$.99	\$.36
CASH DIVIDENDS	\$ 918,252	\$ 721,483	\$ 655,894	\$ 653,869
CASH DIVIDENDS PER SHARE	\$.92	\$.72	\$.66	\$.66

FINANCIAL POSITION

CURRENT ASSETS	\$ 9,097,015	\$ 8,717,675	\$ 7,610,203	\$ 6,741,368
CURRENT LIABILITIES	2,138,373	1,562,931	2,237,331	1,914,445
CURRENT RATIO	4.3	5.6	3.4	3.5
WORKING CAPITAL	\$ 6,958,642	\$ 7,154,744	\$ 5,372,872	\$ 4,826,923
PROPERTY, PLANT AND EQUIPMENT (NET)	2,588,680	2,143,647	2,052,105	4,530,391
TOTAL ASSETS	11,830,892	11,158,393	12,168,584	11,538,993
LONG TERM DEBT	—	—	—	—
RETAINED EARNINGS— Increase (Decrease) for year...	165,879	(97,057)	335,791	(302,559)
NET WORTH (SHAREHOLDERS' INVESTMENT)	9,692,519	9,595,462	9,931,253	9,511,548
BOOK VALUE PER SHARE	\$9.71	\$9.61	\$9.95	\$9.65

GENERAL STATISTICS

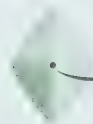
RETURN ON NET WORTH—BEGINNING	11.41%	6.44%	10.33%	3.54%
RETURN ON INVESTED CAPITAL—AVERAGE	11.30%	6.47%	10.16%	3.54%
CAPITAL EXPENDITURES (Excluding acquisitions)	\$ 507,320	\$ 181,725	\$ 276,851	\$ 2,980,026
DEPRECIATION & AMORTIZATION	433,682	406,299	380,836	478,281
CASH FLOW FROM OPERATIONS	1,517,813	1,030,725	1,372,521	829,591
CASH FLOW PER SHARE	\$1.52	\$1.03	\$1.37	\$.84
SHARES OUTSTANDING	998,223	998,223	998,223	986,073
NUMBER OF SHAREHOLDERS	4,079	4,134	4,169	4,116
NUMBER OF EMPLOYEES	2,015	2,018	2,220	2,323
SALARIES & WAGES	\$ 9,585,159	\$ 7,521,731	\$ 8,582,655	\$ 8,972,999
COMMON STOCK PRICE RANGE	13 $\frac{1}{2}$ - 8 $\frac{1}{2}$	15 - 8	14 $\frac{1}{4}$ - 11 $\frac{1}{8}$	13 $\frac{1}{2}$ - 9 $\frac{1}{2}$

Where applicable, figures reflect pooling of interests treatment of Hart Mfg. Corp., Indiana, acquired in October, 1966

1961	1962	1963	1964	1965	1966
\$23,332,976	\$30,979,873	\$40,436,593	\$48,816,081	\$54,624,884	\$67,312,021
630,800	849,709	1,138,415	1,343,500	1,347,500	2,548,000
571,177	904,723	969,273	1,163,100	1,492,712	2,694,606
2.45%	2.92%	2.40%	2.38%	2.73%	4.00%
\$.57	\$.87	\$.94	\$ 1.13	\$ 1.45	\$ 2.58
\$ 65,579	\$ 68,706	\$ 205,201	\$ 269,705	\$ 371,047	\$ 530,497
\$.07	\$.07	\$.20	\$.26	\$.36	\$.51
\$ 7,392,561	\$10,996,285	\$12,449,291	\$14,881,841	\$18,287,544	\$29,963,074
2,572,479	4,585,324	5,821,937	5,872,535	8,435,976	18,390,357
2.9	2.4	2.1	2.5	2.2	1.6
\$ 4,820,082	\$ 6,410,961	\$ 6,627,354	\$ 9,009,306	\$ 9,851,568	\$11,572,717
5,468,026	7,790,956	8,986,991	10,300,254	11,182,628	11,761,089
13,133,625	19,454,960	22,111,165	25,816,267	29,912,039	42,331,104
225,000	3,061,747	3,994,347	6,523,541	6,757,579	6,782,171
505,598	836,017	764,072	893,395	1,121,665	2,164,109
10,161,146	11,536,738	11,976,138	12,862,753	14,011,714	16,347,258
\$10.18	\$11.04	\$11.67	\$12.54	\$13.63	\$15.63
6.01%	8.90%	8.40%	9.71%	11.60%	19.23%
5.78%	7.78%	6.30%	7.31%	7.55%	12.63%
\$ 1,255,536	\$ 1,051,206	\$ 1,975,523	\$ 2,822,618	\$ 1,641,806	\$ 2,136,559
736,052	1,033,230	1,269,824	1,533,049	1,749,814	1,981,568
1,307,229	1,937,953	2,239,097	2,696,149	3,242,526	4,676,174
\$1.31	\$1.85	\$2.18	\$2.63	\$3.15	\$4.47
998,073	1,044,993	1,026,093	1,025,493	1,028,118	1,045,678
3,951	3,993	3,833	3,907	3,965	4,115
2,828	4,019	4,340	5,932	6,450	8,028
\$10,788,568	\$13,433,321	\$15,764,374	\$19,874,117	\$20,712,512	\$24,835,677
12% - 9%	13% - 8%	11% - 8%	14% - 9%	20% - 10%	30% - 17

Where applicable, common share data adjusted to reflect 50% stock distribution made on August 12, 1966.

1966



THE O/E/N PERFORMANCE

...and TEN YEAR GROWTH STORY



	<u>1966</u>	<u>1965</u>	<u>Per Cent of Change</u>
Net Sales	\$67,312,021	\$54,624,884	+ 23%
Income Before Income Taxes	5,242,606	2,840,212	+ 85%
Provision for Income Taxes	2,548,000	1,347,500	+ 89%
Net Income	2,694,606	1,492,712	+ 81%
Net Income Per Share	\$2.58	\$1.45	+ 78%
Cash Dividends Paid	\$ 530,497	\$ 371,047	+ 43%
Shareholders' Investment	\$16,347,258	\$14,011,714	+ 17%
Book Value Per Common Share	\$15.63	\$13.63	+ 15%
Number of Shareholders	4,115	3,965	+ 4%
Number of Employees	8,028	6,450	+ 24%

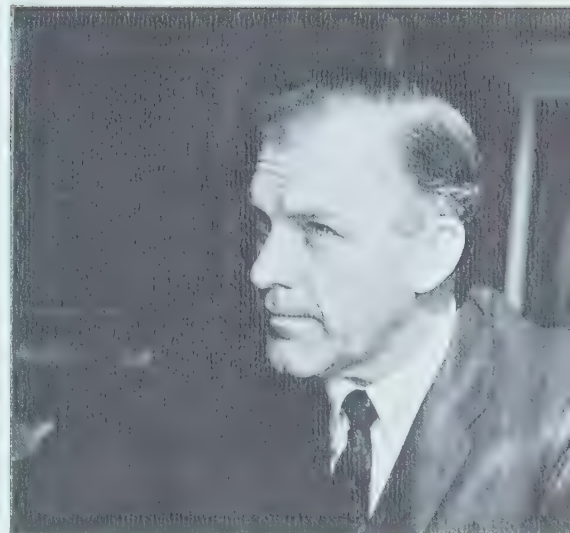
MESSAGE

The past year was the most successful and eventful in the history of OAK ELECTRO/NETICS CORP. Major 1966 achievements were:

- Record sales and earnings of \$67.3 million and \$2.7 million, respectively.
- Strengthening of the O/E/N product line through acquisition and product development.
- Two dividend increases, the second in conjunction with a 50 per cent stock distribution.
- New research facilities in the U.S. and abroad.
- Increased operating and production efficiencies in most divisions.

O/E/N emerged from this period of profit and continuing transition as a strong, diversified corporation with the research and development orientation necessary for further penetration of its markets and continued leadership in electronic components.

Industry experts predict that the market for electronic components will increase approximately 50 per cent during the next nine years, from \$3.9 billion in 1966 to nearly \$6 billion in 1975. As a result, O/E/N should also enjoy continuing long-range growth in coming years.



E. A. Carter
PRESIDENT AND CHAIRMAN

OAK ELECTRO/NETICS CORP and subsidiaries

GENERAL OFFICES

Crystal Lake, Illinois

ANNUAL MEETING

The Annual Meeting of the Corporation
will be held in Crystal Lake, Illinois,
at 10:00 A.M., May 5, 1967.

STOCK TRANSFER AGENTS

Continental Illinois National Bank
and Trust Company of Chicago
Chicago, Illinois

United States Trust Company of New York
New York, New York

REGISTRARS

The First National Bank of Chicago
Chicago, Illinois

Manufacturers Hanover Trust Company
New York, New York

STOCK EXCHANGES

American Stock Exchange
Midwest Stock Exchange

CONSOLIDATED STATEMENTS OF INCOME FOR
THE YEARS ENDED DECEMBER 31, 1966 and 1965

	<u>1966</u>	<u>1965</u>
NET SALES.....	\$67,312,021	\$54,624,884
COST OF SALES.....	<u>51,881,723</u>	<u>43,303,796</u>
Gross income.....	\$15,430,298	\$11,321,088
SELLING, ENGINEERING AND		
ADMINISTRATIVE EXPENSES.....	<u>9,828,165</u>	<u>8,161,111</u>
Income from operations.....	<u>\$ 5,602,133</u>	<u>\$ 3,159,977</u>
OTHER INCOME (EXPENSE), net:		
Interest expense.....	\$ (619,430)	\$ (438,175)
Miscellaneous, net.....	<u>259,903</u>	<u>118,410</u>
	<u>\$ (359,527)</u>	<u>\$ (319,765)</u>
Income before income taxes.....	\$ 5,242,606	\$ 2,840,212
PROVISION FOR INCOME TAXES.....	<u>2,548,000</u>	<u>1,347,500</u>
Net income (Note 1).....	<u>\$ 2,694,606</u>	<u>\$ 1,492,712</u>
Per outstanding share.....	<u>\$2.58</u>	<u>\$1.45</u>

The accompanying notes

CONSOLIDATED STATEMENTS OF SOURCE AND
APPLICATION OF FUNDS FOR THE YEARS ENDED
DECEMBER 31, 1966 and 1965 (Note 1)

	1966	1965
SOURCE:		
Net income.....	\$ 2,694,606	\$ 1,492,712
Depreciation and amortization.....	1,981,568	1,749,814
Proceeds from long-term debt.....	24,592	234,038
Increase (decrease) in deferred income taxes	52,320	(27,798)
Other items, net.....	28,038	343,169
	<u>\$ 4,781,124</u>	<u>\$ 3,791,935</u>

APPLICATION:

Net additions to plant and equipment (including acquisitions in 1966 and 1965 - Note 1).....	\$ 2,529,478	\$ 2,578,626
Cash dividends.....	530,497	371,047
Increase in working capital.....	<u>1,721,149</u>	<u>842,262</u>
	<u>\$ 4,781,124</u>	<u>\$ 3,791,935</u>

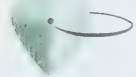
CONSOLIDATED STATEMENTS OF PAID-IN SURPLUS
FOR THE YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
BALANCE, BEGINNING OF YEAR, AS RESTATED (Note 1).....	\$ 1,671,011	\$ 1,669,025
ADD (DEDUCT) (Note 3):		
Excess of option price over par value of previously unissued common stock or cost of treasury stock sold under option plans.....	36,207	1,986
Transfer to common stock account for stock distribution of one additional share for every two issued shares.....	(348,304)	—
Purchase of fractional shares not issued in connection with stock distribution.....	(23,336)	—
BALANCE, END OF YEAR.....	<u>\$ 1,335,578</u>	<u>\$ 1,671,011</u>

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
FOR THE YEARS ENDED DECEMBER 31, 1966 and 1965

	1966	1965
BALANCE, BEGINNING OF YEAR, AS RESTATED (Note 1).....	\$11,827,770	\$10,706,105
ADD (DEDUCT):		
Net income for the year.....	2,694,606	1,492,712
Cash dividends paid (\$.51 per share in 1966 and \$.36 per share in 1965).....	(530,497)	(371,047)
BALANCE, END OF YEAR (Note 2).....	<u>\$13,991,879</u>	<u>\$11,827,770</u>

are an integral part of these statements.



To the Stockholders and
the Board of Directors,

OAK ELECTRO/NETICS CORP

We have examined the consolidated balance sheets of OAK ELECTRO/NETICS CORP. (a Delaware corporation) and subsidiaries as of December 31, 1966 and 1965, and the related consolidated statements of income, retained earnings and paid-in surplus, and funds for the years then ended. Our examinations were made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated balance sheets and consolidated statements of income, retained earnings and paid-in surplus, and funds present fairly the financial position of OAK ELECTRO/NETICS CORP. and subsidiaries as of December 31, 1966 and 1965, and the results of their operations and the source and application of funds for the years then ended, in conformity with generally accepted accounting principles consistently applied during the years.

ARTHUR ANDERSEN & CO.

Chicago, Illinois,
February 6, 1967.

ASSETS

CURRENT ASSETS:

	1966	1965
Cash	\$ 2,485,485	\$ 1,623,843
Receivables, less reserve of \$250,000 in 1966 and \$150,000 in 1965	10,394,862	6,663,241
Inventories, at the lower of first-in, first-out cost (last-in, first-out for one subsidiary) or market	17,082,727	10,000,460
Total current assets	<u>\$29,963,074</u>	<u>\$18,287,544</u>

PLANT AND EQUIPMENT, at cost:

Land	\$ 771,735	\$ 747,231
Buildings	7,513,488	7,317,511
Machinery and equipment	11,469,903	9,899,606
	<u>\$19,755,126</u>	<u>\$17,964,348</u>
Less-Accumulated depreciation	7,994,037	6,781,720
	<u>\$11,761,089</u>	<u>\$11,182,628</u>

OTHER ASSETS:

Prepaid insurance, interest, etc.	\$ 453,128	\$ 265,962
Patents at cost, less amortization	153,813	175,905
	<u>\$ 606,941</u>	<u>\$ 441,867</u>
	<u>\$42,331,104</u>	<u>\$29,912,039</u>

BALANCE SHEETS

December 31, 1966 and 1965

LIABILITIES

CURRENT LIABILITIES:	1966	1965
Notes payable to bank (Note 4)	\$ 8,140,000	\$ 2,040,000
Accounts payable and accrued expenses	8,390,793	5,167,179
Accrued income taxes	1,859,564	1,228,797
Total current liabilities	<u>\$18,390,357</u>	<u>\$ 8,435,976</u>
DEFERRED INCOME TAXES	\$ 473,000	\$ 420,680
LONG-TERM DEBT:		
5% note payable (Note 2)	\$ 6,500,000	\$ 6,500,000
Notes payable of subsidiaries, payable in variable annual amounts to 1986	282,171	257,579
	<u>\$ 6,782,171</u>	<u>\$ 6,757,579</u>
MINORITY INTEREST IN CONSOLIDATED SUBSIDIARIES	\$ 338,318	\$ 286,090
SHAREHOLDERS' INVESTMENT (Notes 1, 2 and 3):		
Common stock, \$1 par value, authorized 2,000,000 shares, 1,047,628 shares issued in 1966 and 697,144 in 1965	\$ 1,047,628	\$ 697,144
Paid-in surplus	1,335,578	1,671,011
Retained earnings	13,991,879	11,827,770
Less-Treasury stock, at cost (1,950 shares in 1966 and 11,320 shares in 1965)	(27,827)	(184,211)
	<u>\$16,347,258</u>	<u>\$14,011,714</u>
	<u>\$42,331,104</u>	<u>\$29,912,039</u>

Notes

(1) PRINCIPLES OF CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and all of its subsidiaries. The Company purchased certain assets and the business of an electronic relay manufacturing company on August 1, 1966, for approximately \$2,000,000 cash. In October, 1966, the Company acquired Hart Mfg. Corp., an Indiana corporation, by issuing 15,000 shares of its common stock (after one for two distribution). The latter acquisition has been accounted for as a pooling of interests and consequently the operations of Hart have been included in the accompanying consolidated financial statements for 1965 and 1966.

(2) 5% NOTE PAYABLE:

The note payable is due \$400,000 annually from 1969 through 1983 and \$500,000 in 1984. The loan agreement provides, among other things, that the Company will not pay cash dividends in excess of \$1,000,000 plus consolidated net income, as defined, accumulated since December 31, 1963. At December 31, 1966, \$5,127,000 of consolidated retained earnings was not subject to the above restriction.

(3) CAPITAL STOCK:

On August 12, 1966, the Company issued 348,304 shares of common stock in connection with a stock distribution of one additional share for every two issued shares. A cash payment of \$23,336 was made for fractional shares.

Under stock option plans, 70,219 shares of the Company's common stock are reserved for issuance to officers and key employees. During 1966, options to purchase 21,375 shares at \$18.42 per share were granted, and options to purchase 12,767 shares at \$11.27 per share and 5,092 shares at \$11.40 per share were exercised. At December 31, 1966, options for 69,094 shares were outstanding.

Authorized capital stock included 400,000 shares of no par preferred stock, none of which was issued at December 31, 1966.

(4) PROPOSED FINANCING:

The Company is presently negotiating for the sale of \$10,000,000 of subordinated convertible debentures. It is anticipated that the terms of the debentures will be finalized in March, 1967. The Company intends to use the proceeds for the payment of notes payable to bank of \$8,140,000 and the remainder for working capital.

TEN YEAR GROWTH STUDY

Founding management plans for revitalization of vertically-oriented company

E. A. Carter begins year of transition and progress through reorganization and study for Long Range Planning

Management implements first phase of Long Range Plan . . . paves way for "new" Oak to enter future

\$20,875,613

1957

TV SALES DOWN

OAK PROFIT OFF 39% FROM 1956

DIVIDEND PAYOUT

85% OF NET INCOME



\$15,537,850

1958

RECESSION, OPERATIONS CURTAILED

DIVIDENDS REDUCED STILL EXCEED EARNINGS

CHICAGO FACILITIES CONSOLIDATED
TUNER PRODUCTION SHIFTED TO ELKHORN

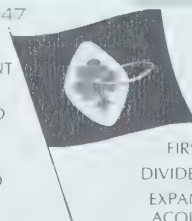
\$18,442,747

1959

FOUNDING MANAGEMENT
PLANS CHANGEOVER

E.A. CARTER ELECTED
PRESIDENT

CRYSTAL LAKE
FACILITY STARTED



\$17,642,295

1960

MOVE TO CRYSTAL LAKE BEGUN
SALES AND EARNINGS
AFFECTED BY MOVE

FIRST FIVE YEAR PLAN STARTED
DIVIDENDS AGAIN EXCEED EARNINGS
EXPANSION, MODERNIZATION AND
ACQUISITION PROGRAMS STARTED

\$23,332,976

1961

MANAGEMENT TRANSITION BEGUN

MARKETING, PRODUCTION,
ENGINEERING GROUPS
REORGANIZED

CRYSTAL LAKE MOVE COMPLETED
- CHICAGO PLANT CLOSED

DIVIDENDS CUT
FROM \$1.00 TO 10 CENTS
MCCOY ELECTRONICS BECOMES
FIRST ACQUISITION

Years of achievement take effect
... sales and earnings continue
upward swing

O/E/N enters new era with new
corporate name ...
begins to emerge as world-wide corporation
... Plans for second five year
phase of Long Range Planning.

\$30,979,873
1962

OFF-SHORE EXPANSION BEGUN
NOBLE-OAK BECOMES FIRST
FAR EAST TUNER OPERATION
HART ACQUIRED
- PROVIDES ENTRY TO
CANADIAN, ENGLISH, SOUTH
AFRICAN MARKETS
FOUNDING MANAGEMENT
PLANS RETIREMENT
DELTA-f INC. ACQUIRED

\$40,436,593
1963

MARCO-OAK ACQUIRED
EUROPEAN
SALES ORGANIZATION
ESTABLISHED
HONG KONG PLANT OPENED
DIVIDENDS INCREASED;
QUARTERLY PAYMENTS RESUMED
NEW MCCOY PLANT BUILT
DELTA-f CONSOLIDATED WITH
MCCOY
MANAGEMENT TRANSITION
COMPLETED ...
E. A. CARTER NAMED CHAIRMAN,
PRESIDENT AND
CHIEF EXECUTIVE OFFICER

\$48,816,081
1964

CORPORATE NAME CHANGED
O/E/N BECOMES LEADING
VHF TUNER PRODUCER
ELKHORN AND HONG KONG TUNER
FACILITIES EXPANDED
DIVIDENDS INCREASED

\$54,624,884
1965

DIVIDENDS INCREASED TWICE
OAK-HOLLAND ACQUIRED
RESEARCH PROGRAM FORMALIZED
DIAMOND H CONTROLS
COMPLETES NEW PLANT

\$66,711,262
1966

50% STOCK
DISTRIBUTION DECLARED
DIVIDENDS INCREASED TWICE
PHILLIPS-ADVANCE
AND
HART-INDIANA ACQUIRED
KOREAN TUNER PLANT PLANNED
HONG KONG AGAIN EXPANDED
RESEARCH FACILITY
ESTABLISHED AT
MADISON, WISCONSIN

OAK ELECTRO/NETICS CORP

THE O/E/N PERFORMANCE

O/E/N's record sales and earnings in 1966 resulted from increased customer demand for all major products, new acquisitions and improved operating efficiencies and productivity at principal subsidiaries and divisions.

SALES

Consolidated net sales reached a record \$67,312,021, a 23 per cent increase over the \$54,624,884 reported in 1965.

EARNINGS

Net income was up 81 per cent to a record \$2,694,606, equivalent to \$2.58 per share on 1,045,678 common shares outstanding at year end. Earnings in 1965 were \$1,492,712, or \$1.45 per share on 1,028,118 shares.

STOCK DISTRIBUTION DECLARED

Outstanding shares for both year ends reflect the 50 per cent stock distribution made on August 12, 1966 to shareholders of record as of July 26.

OAK and HONG KONG LEAD IMPROVEMENT

Significant profit improvements were made by Oak Manufacturing Co., O/E/N's principal division, through improved productivity and Oak Electro/netics Corp. (Hong Kong), which operated profitably throughout the year after experiencing heavy start-up and expansion costs during most of 1965.

All other subsidiaries and divisions contributed to sales and earnings growth with the exception of Oak Electro/netics Holland and Noble-Oak in Japan.

DIVIDENDS INCREASED TWICE


On January 27, 1966, the quarterly dividend on the common stock was increased for the fourth consecutive year, from 15 cents per share to 17½ cents. Following the stock distribution, directors declared a quarterly dividend of 14 cents per share on the split shares, equivalent to 21 cents on the old shares, effecting the second dividend increase during the year.

BACKLOG HIGHEST IN HISTORY

Further indication of the year's success was reflected in an approximate \$25 million order backlog, largest in history, with which O/E/N began 1967. The figure was two-thirds higher than the \$15 million recorded at the end of 1965 and generally comprised the same balance of industrial, consumer and military electronics business as experienced throughout 1966.

MARKET SALES SHOW BALANCED GROWTH

Sales to major segments of the electronics market in 1966 were similar to those of the previous five years, reflecting O/E/N's ability to successfully balance growth among its various component lines.



	1966	1965	1964	1963	1962
Television Tuners	37%	38%	37%	29%	34%
Industrial Electronics	30%	25%	27%	32%	27%
Appliance Controls	8%	14%	16%	18%	10%
Military Electronics	13%	13%	15%	15%	18%
Other Consumer Components ..	12%	10%	5%	6%	11%

Lessening dependence on the television industry remains a primary O/E/N objective, a difficult task when related to the equally strong determination to perpetuate and strengthen its existing tuner market position.

The Oak Division's historic position as one of the nation's leading producers of rotary and pushbutton switches was also maintained as sales of these two major products, second in volume only to tuners, showed a combined increase of 30 per cent in 1966 over the previous year. Principal uses for Oak switches are in industrial test equipment, computer applications and other sophisticated electronic gear.

Increased switch sales, combined with new relay volume from Phillips-Advance, contributed to the increase in sales to the industrial electronics market.

Sales of appliance products dropped in 1966 as a result of a decline in housing starts in England and Canada, and discontinuance of the marginally profitable dryer timer line by the Oak Division late in 1965.

Military business for switches, solenoids, quartz crystals and filters, relays and indicator lights increased 24 per cent. Military sales as a per cent of total 1966 volume remained stable, however, due to successful and comparable growth in serving other electronic markets.

MANAGEMENT

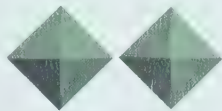
A long-planned functional reorganization of management responsibilities, made early in 1966, improved communications between corporate and operating managements and provided better implementation of O/E/N's formal Five Year Plan, in effect since 1960.

Robert T. McTigue was named Vice President and Director of Domestic Operations, and Carl J. Bradshaw, formerly Director of Far Eastern Operations, was elected Vice President and Director of Foreign Operations.

Morgan H. Cooper, Director of Planning, was elevated to Vice President, Corporate Development, succeeding Mr. McTigue, and John Cassato was elected Vice President, Corporate Relations.

The Board of Directors was strengthened with the additions of Albert A. Morey, Chairman of the Board, Marsh & McLennan, Inc., and Harry W. Petherick, Chairman of O/E/N's English subsidiary, Diamond H Controls Ltd.

Numerous management promotions were made by various subsidiaries and divisions throughout the year to keep pace with growing operations. Virtually all were from within the O/E/N organization, reflecting growing internal management capability.



TWO ACQUISITIONS STRENGTHEN MARKET POSITION

Growth through acquisition continued in 1966 with the purchase of Phillips-Advance Control Co. of Joliet, Illinois, and Phillips Control Corp. of Puerto Rico from Eckmar Corp. for approximately \$2 million. Both Phillips-Advance and Hart Manufacturing Co., another O/E/N subsidiary, produce industrial, commercial and military relays, and the combination provides the corporation with one of the industry's broadest lines of relay products.

In December, the Joliet operations of Phillips-Advance, consisting of administrative, engineering and manufacturing functions, were consolidated with those of Hart in Hartford, Connecticut. Operations at San Juan, the major assembly plant for Phillips-Advance, were unaffected by the move.

Substantial vertical expansion for the Oak Division was achieved with the acquisition in October of Hart Mfg. Corp. of Mishawaka, Indiana (renamed Hart-Indiana). The acquisition was made for 15,000 shares of O/E/N common stock which represented a market value of approximately \$450,000. Hart-Indiana provides Oak with additional capacity and flexibility in tooling, diemaking and fabricating to support increasing volume.

FAR EAST EXPANDED AND REORGANIZED

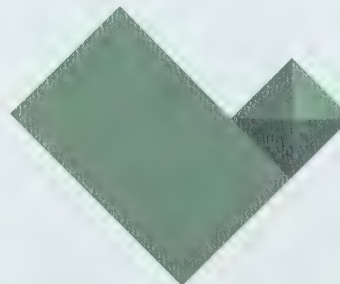
In July, O/E/N Hong Kong expanded its TV tuner assembly facilities to 72,000 square feet, which afforded a 25 per cent increase in production capacity to four million units annually.

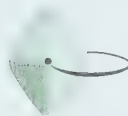
In December, the corporation received Korean government approval to construct a television tuner assembly plant near Seoul. The Korean operation, not scheduled for construction as yet, will serve as a support facility for Hong Kong with a capacity of one million units annually.

Concurrent with Hong Kong's growth and the planned expansion in Korea was the transfer of O/E/N's Far Eastern headquarters from Noble-Oak Ltd., a 75 per cent-owned subsidiary in Japan, to Hong Kong. Late in the year, Noble-Oak's TV tuner production was phased out and the operation converted to a component assembly plant serving Japanese customers.

RESEARCH AND DEVELOPMENT

Increasing attention was turned to R & D activities in 1966 as new corporate basic research facilities were established in Madison, Wisconsin, and tuner laboratories initiated or strengthened in Hong Kong, Japan and Holland to adapt U.S. designs to Far Eastern and European market requirements.





PERFORMANCE OF DOMESTIC O/E/N OPERATIONS

The four domestic companies in the O/E/N group continued as major contributors to total corporate sales and earnings in 1966. The strong U.S. economy sparked a sales rise which resulted in the domestic companies registering 87 per cent of total O/E/N sales in 1966.

Apart from meeting unprecedented customer demands for their products, domestic O/E/N companies continued to fulfill the increasing needs of the electronics industry for greater component performance and diversity through the introduction of a variety of new products, materials and engineering concepts.

Employee relations remained excellent throughout the year as evidenced by the continuing preference for union-free relationships by more than 80 per cent of O/E/N employees. Only one labor contract was negotiated in 1966, a two-year agreement at Elkhorn, Wisconsin, and one is scheduled for 1967, covering the 70-man tool room at Crystal Lake.

OAK MANUFACTURING CO. DIVISION

Crystal Lake, Illinois; Elkhorn and Kenosha, Wisconsin.

HART-INDIANA

Mishawaka, Indiana

Principal Products: Rotary and Pushbutton Switches; Television Tuners; Rotary Solenoids

Principal Applications: Television Sets; Data Processing Equipment; Industrial Controls; Test Instruments

1966 Market Sales: 52% TV Tuners; 19% Consumer; 16% Industrial; 13% Military

1966 sales up 22% over 1965.

In addition to reporting significant increases in tuner and switch sales, the Oak Division more than doubled sales of rotary solenoids (electrically actuated switches) by broadening and adding to the line.

Concurrent with the volume increases were the introduction, refinement or completion of several programs designed to increase efficiencies and improve profitability.

Among them were: 1) introduction of full scale management development programs for supervisory personnel; 2) installation of an IBM system 360 computer; 3) preparation for a data collection system which, when coupled with the computer, will greatly improve material and production control; 4) product standardization programs to reduce manufacturing costs while providing better customer service, delivery and quality; 5) mechanization of fabricating operations; 6) full use of flexible budgeting for improved cost control, and 7) development of plant-wide quality assurance procedures.

Oak Division operations in 1966 were also highlighted by the introduction of several new switch products to meet the changing technological requirements of the electronics industry. Many of these products featured new metals, plastics and operating characteristics which not only improved quality and performance, but permitted lower cost manufacture and assembly.

An important contribution to the Oak Division's production capability was the opening of a 12,000 square foot tuner assembly plant in Kenosha, Wisconsin in October. The plant helped relieve labor shortage problems at the principal domestic tuner plant in nearby Elkhorn, permitting the company to keep pace with orders.

Similarly, the Hart-Indiana acquisition expanded the company's tooling and fabricating facilities to meet growing customer needs.

MCCOY ELECTRONICS COMPANY

Mt. Holly Springs, Pennsylvania

Principal Products: Quartz Crystals and Crystal Filters

Principal Applications: Communications Equipment; Frequency Standards

1966 Market Sales: 60% Industrial; 40% Military

1966 Sales up 24% over 1965

McCoy Electronics continued as one of the industry's leading quality producers of quartz crystals and crystal filters for sophisticated military and industrial communications equipment.

High frequency crystals remain the company's major product, accounting for 67 per cent of 1966 sales. High frequency filters, next in importance, accounted for 21 per cent of sales. The trend toward increased use of glass encapsulated and cold weld crystals continues.

Among significant achievements during 1966 was the introduction of low cost, high frequency crystals for such applications as small private aircraft and sophisticated industrial two-way mobile communications. These new, low unit cost markets became penetrable because of McCoy's newly-developed ability to maintain traditional quality with the introduction of such automated techniques as plating to frequency with vapor and mass etching, polishing and finishing.

McCoy has broadened its marketing opportunities through the development of high frequency filters and expanded its line of temperature compensated crystal oscillators for communications applications.

McCoy continually moves toward cost reduction through mechanization and in 1966 developed new lapping and polishing techniques which have increased production per employee. In some lapping operations, output per operator has more than doubled.

Mass plating and finishing were achieved through automatic, rather than manual timing techniques previously utilized. The process is effective principally in the lower frequencies (1 to 4 mc) and in larger unit quantities (100 or more).



Domestically, O/E/N operates twelve plants with 631,000 square feet of space at eight locations, including Puerto Rico. Sales to original equipment manufacturers are handled by more than 125 technically-trained company salesmen and manufacturers' representatives. Although more than 95 per cent of O/E/N products are designed to individual customer specifications, a wide variety of standard components are sold through 40 distributors in key U.S. electronic markets.

MARCO-OAK INDUSTRIES

Anaheim, California

Principal Products: Illuminated Pushbutton Switches; Panel Indicator Lights; Rotary Switches

Principal Applications: Communications and Data Processing Equipment; Control Panels for Aerospace and Industrial Applications.

1966 Market Sales: 45% Industrial; 45% Military; 10% Consumer

1966 sales up 60 per cent over 1965

Marco-Oak turned in the greatest sales percentage increase of all domestic O/E/N companies.

Higher volume resulted from increased military orders, the broadening of its product line and the introduction of automated manufacturing techniques.

Despite the high proportion of Viet Nam-inspired sales in 1966, Marco-Oak has, since its acquisition by O/E/N in 1963, successfully reduced its dependence on military business. Government sales during the year represented 45 per cent of total volume, compared with 75 per cent three years ago.

New lighted switches and indicator lights, the addition of Oak rotary solenoid production and the build-up of West Coast customers for Oak Division rotary switches has brought about the more desirable market balance.

Continuing trends toward accelerated usage of panel lights and illuminated switches in such applications as test equipment, massive power panels for control of water, gas and electricity, computers, broadcast equipment and commercial and private aircraft suggest outstanding growth potential for Marco-Oak in the industrial electronics field.

HART MANUFACTURING CO.

Hartford, Connecticut

Principal Products: Relays; Appliance Controls; Switches

Principal Applications: Electrical and Electronic; Home Appliances

1966 Market Sales: 30% Appliance Controls; 3% Consumer;

33% Industrial; 34% Military;

1966 sales up 61 per cent over 1965.

Hart sales and earnings increased in 1966 principally from the addition of Phillips-Advance operations from time of acquisition August 1, 1966. Phillips-Advance produces approximately 50 basic types of military, commercial and industrial relays and none overlap the Hart line of heavier duty products.

Approximately 90 per cent of the new division's production requirements are met by the Puerto Rican assembly facility with U.S.-fabricated parts. Hart relays and the balance of the Phillips-Advance line are produced at Hartford.

The anticipated favorable impact of the Phillips-Advance purchase on the Hartford company's sales and profitability will be derived from: 1) the considerably broader line of relays available to Hart customers and, 2) the ability to phase out low profit appliance controls which have evidenced unpromising futures.

The latter move is consistent with O/E/N's policy to abandon product areas deemed incapable of meeting its quality and profit objectives.

Consolidation of Phillips-Advance, Joliet with Hart operations will generate a sales and production requirement to permit the elimination of certain products without adversely affecting employees or the subsidiary's profit position.

Apart from Phillips-Advance, Hart in 1966 benefited from good demand for appliance switches, particularly for air-conditioners and relays for photo and office copying equipment.

1967 Outlook

Although the general economic outlook for 1967 is problematical, production of electronic equipment is expected to continue to increase at rates higher than most other sectors of the economy. The impact of a downturn should be cushioned by sales to new and expanding markets as the influence of electronic technology is more strongly felt in new industrial, military and commercial developments.

In order to minimize the effect of a pause in our economy on O/E/N operations, a cost control plan was initiated in February, 1967, to establish priorities for capital programs and institute cost reduction programs at all operational levels.

With or without an economic leveling off, domestic O/E/N operations should end 1967 with new basic strengths.

Robert J. Mc Siguel




PERFORMANCE OF INTERNATIONAL O/E/N OPERATIONS

O/E/N international sales increased 29 per cent over 1965. All seven companies, except O/E/N Holland, contributed to profits during the year. Noble-Oak Ltd., the 75 per cent-owned Japanese subsidiary, operated at a profit during the year but costs related to its conversion from a tuner assembly to sub-assembly plant resulted in a slight loss.

Although the growth rate of international operations trailed those of domestic O/E/N companies, their 1966 performance was good in view of the economic difficulties in Canada, England, Continental Europe and South Africa.

Inflationary curbs and tight money restrictions resulted in lower home building starts and lower consumer appliance output—important markets to three appliance control-oriented O/E/N companies, Oak-Hart, Diamond H Controls and Diamond H Switches.

The relatively good performance of these three companies resulted from several varying factors: 1) diversification into other O/E/N component lines, particularly switches and tuners; 2) the strength of their quality product reputations which permitted greater penetration of shrinking markets; 3) ability to institute cost reduction programs at the product and general operating levels and, 4) introduction of new products.



*Carl J. Bradshaw
Vice President & Director
International Operations*

DIAMOND H CONTROLS LTD.

Norwich and London, England

Principal Products: Appliance Controls; Relays; Oak Rotary Switches

Principal Applications: Electric Ranges; Electrical Equipment

1966 Market Sales: 63% Appliance Controls; 9% Consumer;

13% Industrial; 15% Military

1966 sales up 1% from 1965.

Diamond H Controls reported significantly higher profits on approximately the same sales as in 1965 as it surmounted severe Government-imposed restraints which were introduced to correct Great Britain's balance of payments position.

The company partially offset the resultant decline in appliance control volume through greater market penetration among electronic range producers, particularly with its energy regulator line.

The increased demand for relays from office copying equipment customers and the aircraft industry, combined with the successful introduction of Oak Division-designed rotary switches into the English market, helped sustain total volume.

Profit improvement resulted from product cost reduction through improved design and greater efficiencies and production capacity afforded by the company's new (1964) plant in Norwich.

The cost reductions offset price pressures on appliance products and general wage increases for hourly employees.

DIAMOND H SWITCHES (S.A.) PTY., LTD.

Durban, South Africa

Principal Products: Electrical Switches; Energy Regulators;

Thermostats; Indicator Lamps

Principal Applications: Electric Appliances; Industrial Electronics;

1966 Market Sales: 90% Appliance Controls; 5% Consumer;

5% Industrial

1966 sales up 5 per cent over 1965

Mid-year government regulated credit restrictions were partially countered by Diamond H Switches with increased penetration of South Africa's expanding appliance market.

Mechanization, cost reduction programs, new products—notably an energy regulator for the growing electric range market—and savings resulting from in-plant manufacture of components formerly purchased, all contributed to improved operations.

As a result, both sales and earnings of the Durban company increased from 1965.

Construction plans for a 25,000 square foot plant in Pietermaritzburg, 50 miles north of Durban, remain in abeyance until the length and impact of the South African government's credit curbs can be related to the future economic growth outlook.

OAK-HART MANUFACTURING (CANADA) LTD.

Aurora, Ontario, Canada

Principal Products: Home Appliance Controls; Switches; Relays

Principal Applications: Electric Ranges; Electrical and Electronic Equipment

1966 Market Sales: 57% Appliance Controls; 26% Consumer;

4% Industrial; 6% Military; 7% TV Tuners

1966 sales down 2 per cent from 1965

The value and significance of product "cross pollination" among O/E/N companies was evidenced by Oak-Hart in 1966.

At the time of acquisition in 1962, Oak-Hart was identified solely with the appliance industry. The introduction of Oak switches in 1964 and television tuners in 1966 resulted in a better balanced product mix.

Oak-Hart's 1966 sales and earnings declines resulting from reductions in housing starts and appliance output were cushioned by strong sales of Oak Division component products.

New product development was accelerated and the introduction of other O/E/N products into the Canadian market are planned for 1967 to further lessen Oak-Hart's dependence on one segment of the economy.

OAK ELECTRO/NETICS CORP. (HONG KONG) LTD.

Kowloon, Hong Kong, British Crown Colony

Principal Products: Television Tuners

1966 sales up 97 per cent over 1965

Oak-Hong Kong which, during the year, became the corporation's principal television tuner assembly facility, operated at near capacity in 1966. Its entire production was taken by the Oak Division for U.S. customers.

Increasing demand for tuners resulted in the leasing of an additional 17,000 square feet of production space in Hong Kong and at year end, the facility occupied 72,000 square feet, with an annual production capacity of four million tuners.

To accelerate tuner delivery, land and sea shipments were augmented with air charter flights of completed units from Hong Kong to U.S. customers.

Oak-designed tuners continue to be assembled in Hong Kong from parts fabricated in Crystal Lake but late in the year, a small fabrication facility was established in a planned program to better integrate Far Eastern tuner operations.

In conjunction with the Hong Kong expansion, tuner operations at Noble-Oak in Japan were transferred to Hong Kong to better facilitate cost, quality and production control. Noble-Oak will continue operations as a component and end product assembly facility under sub-contract to Japanese electronics firms.

OAK ELECTRO/NETICS HOLLAND N.V.

Emmen, Holland

Principal Products: TV Antennas; Oak Rotary Switches

*Principal Applications: European Home TV Market; Electrical and
Electronic Equipment*

1966 Market Sales: 75% Consumer; 25% Industrial

1966 sales up 5 per cent over 1965

A slight sales increase in the face of Holland's economic difficulties was accomplished during 1966 by alteration of Oak-Holland's normally antenna-oriented product mix.

The manufacture of Oak Rotary Switches in the Emmen plant and marketing the product through a newly-established Benelux sales force helped counter the effects of a slowdown in European demand for television antennas.

Among those factors which kept Oak-Holland from recording its first profitable year as an O/E/N company were, 1) start-up costs incurred in the manufacture of Oak products; 2) management development and sales training costs related to the marketing of Oak products and, 3) a national wage increase.

As with Canada, programs to develop a better balance in the product mix have been intensified at Oak-Holland.

OAK ELECTRO/NETICS CORP. (JAPAN) LTD.

Kawasaki, Japan

In October, O/E/N Japan, formerly a holding company for the corporation's 75 per cent stock interest in Noble-Oak, was activated as a purchasing organization for all companies in the O/E/N world organization.

Located in the heart of Japan's industrial complex, O/E/N Japan locates and purchases parts and components, both to augment isolated supply shortages and to afford over-all material cost reductions.

1967 Outlook

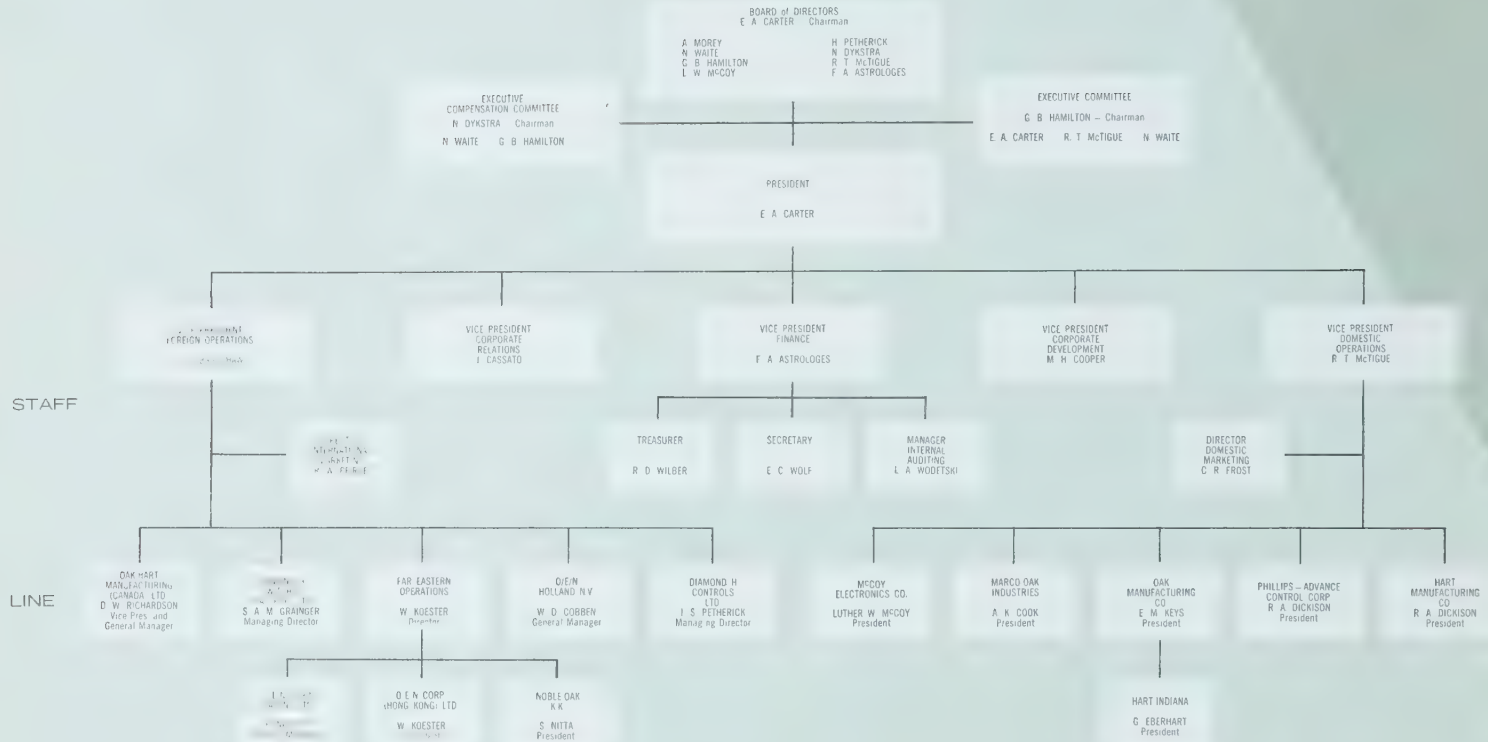
With the world's economy linked closely to that of the U.S., operations of O/E/N international entered 1967 with the same uncertainties as the domestic group of companies.

The 1967 performance of O/E/N international companies will rest not so much on cost reductions in the face of depressed economies, but on greater penetration of world electronics markets through new product development.

To achieve this end, product expansion will take priority among off-shore O/E/N companies in 1967 programming.

Carl J. Bradshaw

MANAGEMENT ORGANIZATION



BOARD OF DIRECTORS:

E. A. CARTER

F. A. ASTROLOGES

A. A. MOREY
Chairman, Marsh & McLennan, Inc.

N. DYKSTRA
Consultant

G. B. HAMILTON
Consultant

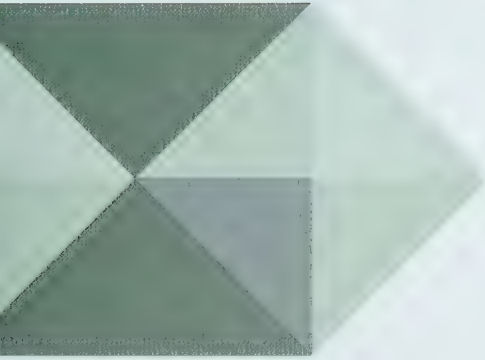
H. W. PETHERICK
Chairman, Diamond H
Controls Ltd.

W. MCCOY
President, McCoy Electronics Co.

R. T. McTIGUE

N. WAITE
Partner, Schiff Hardin Waite Dorschel & Britton



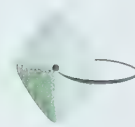


POLICIES AND OBJECTIVES

The basic policies and objectives which guide O/E/N management in conducting corporate affairs first appeared publicly in the 1965 Annual Report in the belief that those interested in O/E/N have a right to know what the company is today and where it hopes to be tomorrow.

The enthusiastic response by shareholders and the financial community to the decision to candidly state these precepts prompts their appearance again this year.

Knowledge of a company's operating policies and objectives permits shareholders, investors, customers, employees, suppliers and citizens in plant communities to better understand the company's past achievements and evaluate future prospects with insight seldom provided by corporations.



EARNINGS

IT SHALL BE THE OBJECTIVE OF O/E/N TO OBTAIN A MINIMUM ANNUAL RETURN ON INVESTED CAPITAL OF 17 PER CENT AND A MINIMUM PROFIT POSITION OF 8 PER CENT NET TO SALES.

These goals are the most challenging and will be difficult to achieve. Although some years away, they represent realistic targets.

Profit studies of 40 representative publicly-owned components producers show lower average profit returns than the electronics industry in general. But the studies also show that outstanding performance, both in earnings and return on investment, have been consistently recorded by companies with established leadership positions in specific areas of componentry.

O/E/N profit margins improved to 4.00 per cent in 1966, compared with 2.73 per cent in 1965, while return on average invested capital rose from 7.55 per cent to 12.63 per cent.

Improved profitability will come from in-plant cost reductions and the development of new, proprietary products affording more substantial margins.

O/E/N intends to strengthen its leadership position in tuners and diversify into other component areas.

The success of this diversification is reflected in the fact that while 37 per cent of total 1966 sales were in television tuners, the other 63 per cent represented more than the entire O/E/N volume of 1963.

OBJECTIVES

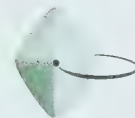
DIVIDENDS

IT SHALL BE THE POLICY OF O/E/N TO DISTRIBUTE CASH DIVIDENDS NOT TO EXCEED 40 PER CENT OF ANNUAL NET EARNINGS.

This policy provides a reasonable cash return to shareholders while allowing O/E/N adequate funds for reinvestment in the business.

Dividends have been increased seven times in the past four years, placing common stock on a 64 cent annual payout basis in 1967.

The increases reflect active adherence to the dividend policy as the company's earnings position continues to improve.



POLICIES and

MANAGEMENT

IT SHALL BE THE POLICY OF O/E/N TO ENCOURAGE AUTONOMOUS OPERATION OF EACH SUBSIDIARY AND DIVISION WITHIN THE FRAMEWORK OF OVER-ALL CORPORATE POLICIES AND OBJECTIVES.

In the belief that individual managements are best qualified to guide their own operations, corporate influence on day-to-day operations is minimal. A small corporate staff maintains close liaison with divisional managements to insure compatibility of divisional potential with corporate programming.

The policy allows maximum flexibility with only financial and accounting controls required by O/E/N management.

OBJECTIVES

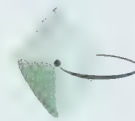
ACQUISITIONS

IT SHALL BE THE OBJECTIVE OF O/E/N TO ACQUIRE PROFITABLE COMPANIES IN THE COMPONENTS AND MATERIALS FIELD ON A BASIS BENEFICIAL TO BOTH OWNERSHIPS.

These goals were established as an objective rather than a policy because the science of acquiring companies takes much decision-making out of O/E/N's hands. For the most part, O/E/N has been able to meet these objectives.

Since 1961, O/E/N has made ten acquisitions which have broadened participation in many growth areas of the electronics industry and provided much needed management capability and intelligence.

In each case, the acquired company's product interest was consistent with the O/E/N policy of remaining a components and materials producer.



POLICIES and

EMPLOYEES

IT SHALL BE THE POLICY OF O/E/N TO PROVIDE AN ATMOSPHERE FOR THE DEVELOPMENT OF INDIVIDUAL EMPLOYEE RESPONSIBILITY AND SENSE OF PARTICIPATION IN THE SUCCESS OF THE CORPORATION.

Of equal importance to wage, salary and benefit programs is meaningful recognition of the employee as an intelligent and vitally interested member of O/E/N. Formal programs are essential, yet can contribute only in a limited way to embracing each employee as an important member of the organization. Communications—both formal and informal—take on greater significance in pursuing this policy.

Complete and open communications not only inter-company, but intra-company, provide the proper atmosphere for continuing unexcelled performance and attitude.

OBJECTIVES

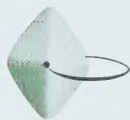


PHILOSOPHY OF LEADERSHIP

IT SHALL BE THE POLICY OF O/E/N TO SET A STANDARD OF EXCELLENCE ABOVE THE LEVEL OF COMPETITION.

Excellence is the primary motivating factor in the O/E/N quest for leadership. The importance of sustaining a quality reputation in a price conscious market is difficult at best. Quality cannot and must not be compromised for price, nor can pricing be unrealistic to market conditions.

Balance in quality and price, combined with leadership in service, aggressive new product development and excellent customer relations are essential to living by a philosophy of leadership.



BUSINESS

IT SHALL BE THE POLICY OF O/E/N TO CONFINE ITS BUSINESS TO THE COMPONENTS AND MATERIALS FIELD.

Economists and electronics industry leaders envision a \$34 billion electronics industry by 1975 . . . an increase of almost 100 per cent over 1966.

The greatest increase is expected in industrial electronics, with consumer, government and military volume also contributing significant advances.

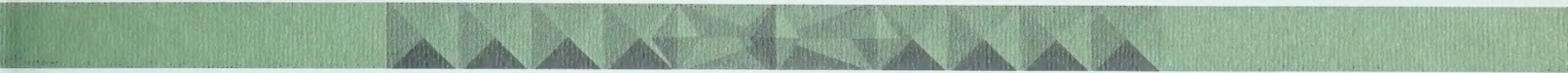
In industrial-commercial electronics, growth potential for existing products and those yet to be developed is foreseen in closed circuit television, data phones, facsimile transmission apparatus, microwave and telemetering equipment, electronic telephone switching systems and electronic instruments for medicine, science and education.

Military programs such as space, supersonic aircraft and communications offer still other growth.

Not all government spending will be military. Government-sponsored programs such as aid to education, weather analysis and modification, urban and inter-urban transportation, pollution and flood control, desalination and post office automation are just a few planned activities directly affording market opportunities to O/E/N.

O/E/N/ research, development and acquisition activities will be directed to serve these key growing markets with basic components and materials.

OBJECTIVES



FUTURE

IT SHALL BE THE OBJECTIVE OF O/E/N TO ACHIEVE RECOGNITION AS THE WORLD'S MOST RESPECTED COMPONENTS PRODUCER—WITH ENGINEERING, PRODUCTION AND MARKETING CAPABILITIES IN EACH AND EVERY MAJOR WORLD MARKET.

Eventual achievement of this objective will fulfill a primary management obligation—to sustain and strengthen O/E/N business for shareholders, customers and employees of the future.

O/E/N has an engineering, marketing and manufacturing capability to establish and maintain leadership in a potentially limitless market. In this age of specialization, the future of the corporation will be best served by concentration and expansion in areas of proven competence.

